

**CALIFORNIA ECONOMIC STRATEGY PANEL
INFRASTRUCTURE POLICY ISSUE COMMITTEE**

SUMMARY

Background

The members of the California Economic Strategy Panel defined the following four policy issue areas that are critical for the growth and competitiveness of the state's economy:

- Workforce Development and Education Policy Committee (Senator Vasconcellos, Donald Fowler, Bill Simmons, and Amy Dean);
- Economic Data and Information Policy Committee (Donald Fowler and Bill Simmons);
- Infrastructure Policy Committee (Senator McPherson, Jerold Neuman, Ricky Laster, Lee Pearson and Vincent Chong); and,
- Governance and Regionalism Policy Committee (Sunne Wright McPeak and Araceli Ruano).

The members agreed to meet with technical advisors to review statewide and regional policy reports in each of the above areas and discuss the role, if any, the California Economic Strategy Panel can play. The result will be a two-year workplan beginning in January, 2003.

The following provides a summary of the discussion and recommendations for the workplan by the Infrastructure Policy Committee on September 26, 2002.

SUMMARY OF DISCUSSION

Common themes in policy reports reviewed by staff (refer to CESP Infrastructure Matrix) and key discussion points included the following:

- The Infrastructure Matrix and discussions by the Infrastructure Committee need to address water and telecommunications infrastructure as critical demands for the future economic growth and competitiveness of the California economy.
- Consistent themes of California infrastructure needs in the past ten years are 1) the need to invest a huge amount of capital; 2) integrate strategic planning and strategic return on investment; and, 3) "fix it first."

- There is a need to resolve obstacles and detriments because of local controls that were established under different infrastructure demands (i.e. right-of-way for laying fiber optics and cable).
- The infrastructure demands of intermodal (ship and rail transport) goods movement is enormous and impact future growth and competitiveness of the state's economy.
- The California Economic Strategy Panel should "tell the story" about the symbiotic relationship between infrastructure and the economy; what the universe of infrastructure is and identify elements that are the most critical statewide and regionally, short-term and long-term.
- The California Economic Strategy Panel should work with a marketing firm to develop talking points about the economy and how infrastructure such as transportation, water, energy and educational facilities impact growth and competitiveness.
- The challenge is to fix and improve existing infrastructure, such as telecommunications, for the best benefit and the least cost.
- UCLA has established a California Infrastructure Project to "uncover the relationship between infrastructure systems and economic development within the state."
- The California Economic Strategy Panel should convene the various organizations involved in infrastructure issues such as UCLA, research institutes around water use and state agencies.
- Old ideas will not work in the future; we need new technologies for new products such as the ability to capture and store rainfall and desalinization plants.

RECOMMENDATIONS

The Infrastructure Committee proposed the following recommendations:

- The California Economic Strategy Panel should affirm the critical linkage between a strong infrastructure and economic growth and competitiveness.
- The California Economic Strategy Panel should convene key decision-makers to 1) identify new sources of funds and new financing methods; 2) develop a planning driven method versus a project-based or pork barrel; and, 3) develop a return-on-investment accountability method, for infrastructure investment.

- The California Economic Strategy Panel should “tell the story” for the need of a strong, improving goods-movement transportation system and to effectively compete for TEA-21 reauthorization funds in 2003
- The California Economic Strategy Panel should work with a marketing firm to tell a consistent story about the California economy and critical policy changes needed for sustained growth and competitiveness.
- The California Economic Strategy Panel should review and comment on the Water Resources Board Five-Year Plan.
- The California Economic Strategy Panel Members should be on speaking circuits, invitee lists and members of other policy groups discussing the infrastructure demands of the California economy.
- The California Economic Strategy Panel should recommend to the Governor and the Legislature the completion of an inventory of State government owned assets.

TECHNICAL ADVISORS:

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CALIFORNIA ECONOMIC STRATEGY PANEL

INFRASTRUCTURE POLICY ISSUES

Report (Author, Title, Affiliation, Date, Internet Link)	Overview	Key Findings	Key Recommendations	Status/Evaluation	Recommendations for Role of the Panel
<i>Invest for California – Strategic Planning for California’s Future Prosperity & Quality of Life</i> , Commission on Building for the 21 st Century, 2001, www.bth.ca.gov	<p>Commission appointed by Gov. Davis to develop an infrastructure investment strategy for the State. Assessed needs over next 20 years in 8 categories: educational facilities, energy, housing, land use, public facilities, technology, transportation, water; identified recent progress; and, recommended integrated set of guiding principles, policies & specific strategies to close investment gaps. Identified urgent priorities, and emphasized better use of resources. Note: there are many specifics provided for each category.</p>	<ul style="list-style-type: none"> • Infrastructure is the foundation for economic prosperity and quality of life. • California has long-term infrastructure deficit; must address both past underinvestment and future needs for growth and changing economy and population to sustain economy. • California will add 6 million jobs, 12 million people, and 4 million homes. Growth will come primarily from California residents. (Many specific findings for each infrastructure category.) • Planning and investment critical on continuous basis, regardless of economic cycles. “We cannot fall behind again.” • Infrastructure is a shared responsibility for all sectors. 	<p>Urgent and Immediate Priorities:</p> <ul style="list-style-type: none"> • Pass new State school bond measure; include joint use, resource efficiency, and integrated land use planning. • Develop statewide energy infrastructure policy and statewide water infrastructure plan. • Increase housing production through incentives and regulatory reform measures, including rewards for communities that meet/exceed housing production goals. Resolve construction defect and defect litigation issues; reform regulations to redevelop brownfields. • Pass constitutional amendment to lower the vote threshold to 55% for local bonds and sales tax initiatives, for local and regional infrastructure plans, especially transportation. <p>Crosscutting Reforms for a Sustainable Foundation:</p> <ul style="list-style-type: none"> • Establish a new permanent public-private entity to support cost-effective infrastructure planning and investment – the California Infrastructure Partnership. • Establish permanent infrastructure investment fund, from the General Fund, with investment priorities determined by the Governor and Legislature. • Reform state tax policy to improve land use decisions. Options provided. • Promote policies that balance competing needs of residential, commercial, agricultural and environmental uses for 	<p>Report follow up generally low key due to budget situation. School bond measure is on the ballot, with set-aside for joint-use and “schools as centers of communities.” Some legislation has been proposed for a permanent Infrastructure Fund and to address fiscal reform (Steinberg AB 680). Governor’s Office of Planning & Research is working on a model planning ordinance for new models of development. Commitment by Governor to increase share of energy supply from alternative/renewable energy resources.</p>	<ul style="list-style-type: none"> • Promote support for infrastructure investments as key foundation. • Review guidelines and criteria for state financing investments. • Identify opportunities for emerging economic sectors, e.g., “green building” technologies and applications. • Identify areas where better information is needed to assess investment strategies; consider analysis to align revenue strategies with demands of 21st century economy. • Track the AB 1473 (State capital budget plan) process. • Assess potential for the California Infrastructure Partnership.

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			<p>scarce land resources. Require and provide support for regional housing plans. Expand initiatives for new models of conservation and development (infill, transit-oriented development, etc.)</p> <ul style="list-style-type: none"> (Provides innovative financing strategies – calls for review of financing options, aligned to the demands of the new economy.) 		
<p><i>Building California's Future: Current Conditions in Infrastructure Planning, Budgeting, and Financing</i>, Michael Neuman and Jan Whittington, Public Policy Institute of California, 2000, www.ppic.org</p>	<p>Supplemented the Commission on Building for the 21st Century by looking at the infrastructure investment decision-making process at the state level. The study evaluates how departments, legislators, and the Governor interact to plan, budget, finance, and prioritize infrastructure projects.</p>	<ul style="list-style-type: none"> Identified needs outstrip available resources. The definition of infrastructure is changing (and is broader). Most planning originates at the department level, with capital budget based on proposals for individual projects, guided by the State Administrative Manual. A lengthy process follows as the capital budget is put together for the Governor's budget, reviewed by the Legislature and the Legislative Analyst's Office (with hearings, etc.) before final budget approval. Some agencies have more flexibility for project streamlining. The state's most sophisticated planning and development efforts operate at the margins or completely outside of the Manual procedures. The process leaves California relatively strong on project planning by individual agencies and weak on statewide planning and strategy. Decisions are often guided by the details of the annual budget process rather than broad policy goals. This rewards short-term budget balancing rather than long- 	<ul style="list-style-type: none"> The State's decision-making process needs repair. Piecemeal reform cannot address lack of statewide vision or strategy. An alternative approach should stress strategic thinking, coordination, and efficient information management. AB 1473, which is to implement a statewide five-year infrastructure plan, can help if the implementing mechanisms are well designed. 	<p>PPIC continues to study the issue. The current budget crisis underlies the structural issues raised in the report. Implementation of AB 1473 is lagging and includes only state identified needs and not the needs of the state overall.</p>	<p>The Panel could continue to raise the issue about the information needed for comprehensive assessments and long-term investing within a strategic framework.</p>

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		<p>term asset management, and is not responsive to changes in the business cycle.</p> <ul style="list-style-type: none"> • Available funds, rather than long-term priorities, define infrastructure “needs.” • There is no life -cycle framework for infrastructure and it tends to neglect assessment and maintenance in favor of crisis management. • The process emphasizes long-term debt over other options that would help close the gap between needs and available funds. • Information for capital decisions is limited, and resources for infrastructure management vary widely. 			
<p><i>California’s Infrastructure Policy for the 21st Century: Issues and Opportunities</i>, David E. Dowall, Public Policy Institute of California, 2000, www.ppic.org</p>	<p>A companion report to the issues outlined in the report on state infrastructure decision-making by PPIC.</p>	<ul style="list-style-type: none"> • California will need to invest an estimated \$82 billion in its infrastructure over the next ten years, but projected state and local revenue sources will meet only half of this need. • Current facilities have not kept pace with urbanization, community development, surging enrollments, business formation and expansion, and other developments fueling huge infrastructure demands. • The state lacks a stable funding source for infrastructure programs, reviews these programs on an ad hoc basis, and does not evaluate infrastructure investment requirements on a statewide basis. • Traditional planning relies on per capita consumption estimates to forecast needs, without considering public willingness to pay for infrastructure improvements, the effects of conservation and technological change. • Conservation strategies would allocate 	<ul style="list-style-type: none"> • The State should focus on infrastructure policy and management rather than on direct provision of infrastructure, with special attention to market-oriented solutions (based on successful experiments elsewhere), • Policymakers should prioritize needs by focusing more on demand: that is, how much the public is willing to pay for particular services and projects, and shift costs to user and beneficiary groups. • The State should implement strategies for reducing or managing demand in such areas as energy, transportation, water supply, and solid waste treatment. • Demand management strategies include flexible pricing and more efficient use of existing facilities. • The State should assess new models of service delivery that blend efforts of public, private and non-profits. • Long-term financing and leveraging for infrastructure investments is 	<p>Conservation strategies were implemented for energy but not for other infrastructure categories. There is generally resistance to user fees and flexible pricing strategies. The Commission on Building for the 21st Century endorses the partnership approach with a variety of new models. Many economists believe we should shift more to demand management and conversation approaches. CalTrans in particular is experimenting with technology to address traffic congestion. The Governor’s Green Building Executive Order is being implemented with new state facilities, addressing water, energy, building materials, waste recycling, and other resource issues.</p>	<p>The Panel could assess the potential for recommended strategies to reduce/manage demand, improve use of existing facilities, and provide more stable and adequate revenue streams. The Panel could promote infrastructure projects like the Alameda Corridor as a model for new approaches and partnership and financing strategies.</p>

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		resources more efficiently and reduce cost of new investments.	<p>recommended over pay-as-you-go (providing intergenerational equity as users pay for infrastructure over the life of the investment).</p> <ul style="list-style-type: none"> With a management approach, California's institutional and regulatory environment will need to be restructured to foster demand-oriented service delivery. The State would still be responsible for setting the policy framework, regulating providers, ensuring fair prices, and guaranteeing equity. 		
<p><i>Smart Public Investments for the California Economy: Information and Analysis for Infrastructure Planning</i>, Steve Levy, Center for the Continuing Study of the California Economy, for Californians and the Land, 1999, www.Newccsce.com</p>	<p>Several foundations provided support for this report, to address concerns about a lagging infrastructure and its impact on the State's continued economic prosperity and quality of life, given conditions of the State's critical systems and the growth it faces. It is linked to an earlier report, <i>Land Use and the California Economy</i>, which concluded that a high quality of life is a critical determinant in attracting entrepreneurs and workers to the State's leading high-wage industries. The report focuses on three key issues: what are</p>	<ul style="list-style-type: none"> The State can afford and the State's economy will require more investments in its parks, roads, schools, and other capital facilities. The State must catch up on past maintenance of current infrastructure as well as plan for future needs. Investment requires a more thoughtful planning process that anticipates the State's real needs. The level of information available to develop a long-term infrastructure investment strategy is inadequate. The current information base is poorly organized and incomplete. 	<ul style="list-style-type: none"> Infrastructure planning must be a comprehensive long-term process. California's infrastructure investment must be a partnership effort. The State should take responsibility for compiling a comprehensive picture of statewide infrastructure needs and funding availability, reflecting the activity of all partners – local and regional agencies, the federal government, and private and non-profit sectors. Integration of planning efforts across agencies and communities is needed (i.e., land-use and transportation planning). Return on investment should be an explicit investment criterion. Analysis needs to distinguish different components of need: replace/repair existing and aging infrastructure, introduce new standards and technology, catch up with past underinvestment, and plan for future growth. Concepts for developing and evaluating cost-effective approaches to improving 	<p>Many of the report's recommendations are incorporated into the Commission on Building for the 21st Century. There is not yet commitment for the long-term planning process framework, and the database issues continue.</p>	<p>The Panel could emphasize the importance of the database and the long-term planning to make equitable and cost-effective infrastructure investments. The Panel could assess concepts for evaluating cost-effective approaches to improve capacity.</p>

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	critical gaps for information and analysis needed for public infrastructure planning, what cost-effective approaches should be considered, and what economic criteria should be used for public investments.		<p>capacity include: a focus on improving services capacities first, getting better use out of existing infrastructure (e.g., conservation), and use of market forces (prices, incentives, etc.).</p> <ul style="list-style-type: none"> Invest to getting better information on which to base decisions, and perform rigorous investment analysis. 		
<i>Raising the Roof: California Housing Development Projections and Constraints</i> , 1997-2020. Statewide Housing Plan. John Landis, Principal Author, Institute of Urban and Regional Development, U.C. Berkeley, et al., for the California Dept. of Housing and Community Development, May 2000, www.hcd.ca.gov	<p>This report is an update of the California Statewide Housing Plan, and contains a great volume of information on a county-by-county basis for: California's projected housing needs through 2020, the constraints to meeting those needs, and the possible consequences of not meeting them. It covers household and tenure changes, the supply of developable land and where the State is in short supply, the local regulatory process, capital constraints to housing production, the impacts of shortfalls, and makes recommendations. It also suggests areas for further research. The report was a basis for much of the housing section of the</p>	<ul style="list-style-type: none"> By 2020, the state will add more than 12 million new residents and approximately 5 million new households. To meet projected needs will require that an average of 220,000 housing units be built each year, of all housing types. Current production is less than 150,000 units per year, and there is an accumulated deficit due to past underproduction. If current trends continue, California will build less than 60% of needed housing, leading to rising housing prices, higher cost burdens, lower home ownership rates, increased crowding, and longer commutes. Most growth might be able to be accommodated with housing forms that consume less land than in the past, but there is no statewide database regarding the potential for redevelopment and land reuse. A few areas are projected to run out of land under current development and land use patterns. The current regulatory environment is inconsistent and time-consuming, dampening production and innovation in land planning, site and building design. California pay a higher percentage of their income to housing than other states 	<ul style="list-style-type: none"> The State needs to develop and institutionalize, among all sectors, a stronger and more broad-based commitment to producing more housing, more diverse housing, and less expensive housing. It is at the root of most of the state's core policy issues like traffic congestion and sprawl. Strong housing policy is a must. Increase the supply of financing for investors in new multi-family projects. Promote and improve the ability to do infill development. Identify and preserve habitat, resources, farm and open-space land, as part of a broad and balanced strategy to meet diverse housing needs. Improve land planning and entitlement process. The State can help local governments to meet projected needs by financial incentives, support for regional and sub-regional planning, and other reforms. The state's major environmental, development and social justice advocates must come together at the state and regional levels to reach an accommodation over growth, land use, fiscal and housing issues. 	<p>Housing continues to emerge as the big issue threatening economic vitality, as costs are continuing to increase even during the economic downturn. Alliances are emerging to overcome voter and community resistance to growth and provide needed housing, but there is still not a broad-based call for housing as a top public policy priority. Some initiatives were funded by the State to provide incentives for new models of development, including infill and mixed-use, and to address jobs-housing balance and brownfields clean up, but they have been impacted by the budget situation. HCD is working with cities and counties on compliance with housing element requirements. There is a proposal for a housing bond. Regulatory reform issues must still be addressed.</p>	<p>The Panel could advocate for attention to address housing production needs as key economic vitality issue. The Panel could highlight new models, including community revitalization and new development, which supports local and regional economies.</p>

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	Commission on Building for the 21 st Century.	their income to housing than other states, homeownership rates are dropping, and commute times are increasing. These are all affecting the economic climate.	<ul style="list-style-type: none"> Homebuilders should work to ensure that their design and development practices build real neighborhoods and communities, as opposed to just units. 		
<i>Rebuilding the Dream: Solving California's Affordable Housing Crisis</i> , Little Hoover Commission, May 2002, www.lhc.ca.gov	The Little Hoover Commission is an independent state oversight agency. It initiated this study because housing production has not kept pace with growth, resulting in a critical shortage of housing, and the Commission recognized the potential for this problem to undermine many other public goals. The shortage is growing worse, and housing prices are no longer a cyclical challenge but a worsening problem with economic and social consequences for individuals, employers, communities and regions. The issue is complex, so the Commission focused on three areas: how the State can help make more land available for housing and encourage local governments to ensure that affordable housing is built; ways to increase private	<ul style="list-style-type: none"> California is losing ground with housing production – 2000 is the 11th consecutive year that production fell well short of the annual need. New housing is often not close to job centers, and other areas where it is most needed. Traffic congestion and homelessness are increasing; the economy is threatened. The State has exerted limited authority to increase production, with limited success in enforcing housing element law. Citizens often overrun the housing element plans for fair share housing, to limit growth and prevent low-income housing production. The aftermath of Proposition 13 means that local governments do not have budget resources to provide adequate police, fire protection and other services resulting from lower income housing development. There are not adequate state policies to ensure that local communities provide housing at all income levels. Brownfields are an undeveloped opportunity to make land available for affordable housing close to jobs centers, break the cycle of deterioration, and enhance the well-being of surrounding neighborhoods. Diminished investment incentives, coupled with uncertainty and perceived risk, has reduced private investment in affordable housing, especially multi-family. 	<ul style="list-style-type: none"> The State should implement a comprehensive set of planning policies and fiscal incentives to ensure that local jurisdictions plan for and produce affordable housing, including strengthening and enforcing housing element law, and reforming the housing needs allocation process. The State should establish policies and incentives that prioritize the reuse of brownfield sites, including establishment of a statewide database, guidelines, and a streamlined approval process, with financial and technical assistance. The State should promote partnerships like the Community Capital Investment Initiative in the Bay Area, increase the efficiency and certainty of the project approval process, and identify new sources of capital, with the State Treasurers convening a task force. The State should identify permanent, dedicated sources of funding for the California Housing Trust Fund, promote local housing trust funds, and enact policies to share infrastructure-related costs for affordable housing. The State should streamline the administration of state affordable housing programs and establish a clearinghouse. 	This report builds on <i>Raising the Roof</i> . See comments above.	See recommendations under <i>Raising the Roof</i> .

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	investment in affordable housing; and ways to improve the efficiency and impact of housing studies.	<ul style="list-style-type: none">Public subsidies for affordable housing are inconsistent, unreliable and not allocated in the most efficient ways. Funding sources are fragmented.			